

petrosar

Petrosar Limited
Annual Report
1974



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OWNERSHIP

Polysar Limited.....	60%
Du Pont of Canada Limited.....	20%
Union Carbide Canada Limited.....	20%

DIRECTORS

- I. C. Rush,
President, Polysar Limited
- J. S. Dewar
President, Union Carbide Canada Limited
- R. J. Richardson
President, Du Pont of Canada Limited
- G. Bracewell
Vice-President, Polysar Limited
- C. A. McKenzie
Vice-President, Polysar Limited
- C. Ambridge
General Manager New Products, Polysar Limited

OFFICERS

- I. C. Rush, Chairman of The Board
- S. P. Smith, President
- J. P. Sheehan, Vice-President
- R. F. Dykes, Secretary

ESTIMATED INVESTMENT (Including working capital)

In excess of \$400 million

Petrosar Limited
242 Indian Road South
Sarnia, Ontario
N7T 3W4
Telephone (519) 336-4630

PRESIDENT'S MESSAGE

In this, our first Annual Report, it is appropriate to review the circumstances leading to the formation of Petrosar Limited, to review the progress which has been made and to briefly outline the challenges which we see ahead of us.

During the late 1960's the present shareholders of Petrosar initiated steps aimed at developing a secure supply of petrochemicals at reasonable costs. By the early 1970's The Sarnia Olefins & Aromatics Project (S.O.A.P.) was formed to investigate the various alternatives available and to recommend a strategy to resolve the problem. After a period of intensive study, the project team recommended that a world-scale crude oil topping and naphtha cracking unit be built in the Sarnia area to provide the raw materials required by the shareholders and to supply substantial quantities of fuel products to the Eastern Canadian market. This team was under the direction of Dr. D. F. Brown of Du Pont, with Mr. G. W. Ames of Polysar, now Manager of Marketing for Petrosar, in a leadership role. The success of their efforts is attested to by the fact that on April 4, 1974, Petrosar was incorporated with a mandate to build and operate such a facility.

The Lummus Company Canada Limited was selected as the prime contractor for the project. Engineering and construction has proceeded satisfactorily towards the scheduled start-up of the crude unit in November, 1976, with all facilities to be fully operational by May, 1977. The total capital expenditure commitments to December 31st, 1974 amounted to \$136 million, of which \$51 million was paid. The expected total cost of the project, including working capital requirements, is in excess of \$400 million. Although provision for the effects of inflation is included in the present estimates of the total project cost, we recognize that, in the current economic environment, forecasting the cost of a project which will not be completed until 1977 is particularly hazardous. We are also concerned about the adequacy of construction labour in view of the extraordinary demands imposed by the enormous expansion programs planned for the Sarnia area.

In 1974, marketing efforts were centered on developing multiple-year sales contracts for a major portion of our chemical products, particularly with the shareholding companies. A long-term contract, subject to approval by the Ontario Energy Board, was negotiated with Union Gas Limited for all our synthetic natural gas production. A letter of intent was signed with Ontario Hydro to enter into a long-term agreement for sales of a large volume of residual oil.

contract requires you to
- no prepayment
- going to be hearing - put

15 yrs, I think. It is very
nice to see this flock of gas before us.
fact that will be a hearing
want to talk.
Discussions
- Aug.

During the year, financing activities were concentrated on determining cash requirements and arranging for the necessary supply of funds. Arrangements were concluded with a group of Canadian banks under the leadership of The Toronto-Dominion Bank for loans aggregating \$300 million. These funds, together with shareholder equity commitments and prepayments under certain sales agreements, are expected to provide all the finances necessary to meet forecast cash requirements.

It is not possible to acknowledge here all of the many significant contributors in the development of Petrosar, but some individuals deserve special mention. The leadership and support of Mr. I. C. Rush, President of Polysar, Mr. J. S. Dewar, President of Union Carbide and Dr. R. J. Richardson, President of Du Pont have been key factors in our program. The participation of other executives of these companies in resolving the many problems inevitably encountered in a project of this magnitude cannot be overstated. The assistance of staff members loaned to the project by the shareholder companies, for both full-time and intermittent service, is gratefully acknowledged. We remain indebted to all these individuals for their considerable efforts and valuable contributions.

Recognizing from the outset that the key element in our success would be our human resources, we launched an intensive recruiting campaign in mid 1974 to attract highly competent and experienced personnel with proven technical and managerial skills. This program has been successful in securing the excellent people we have in our organization, which now numbers a total of 40 in all categories. Recruiting efforts have been accelerated and will continue throughout 1975, until all key management positions as well as the remaining requirements for other technical, professional, and managerial personnel have been filled.

The task immediately ahead for our project staff is to control engineering, procurement and construction activities to assure achievement of our project cost and completion objectives. For our permanent organization, it is to form an effective working team, to plan for a successful plant start-up and to establish the managerial bases for optimizing company operations in all sectors. Together, we must all continue to build relations with the community that will firmly establish our recognition as a good neighbour. For those currently in our organization and for those who will join us soon, the coming months will be interesting and challenging. We look to the future with both enthusiasm and confidence.

S. P. Smith

S. P. Smith
President

*legion may result in
supplies from that
source. Swap arrange.
work to US distrib.*

136.
51.2
84.8

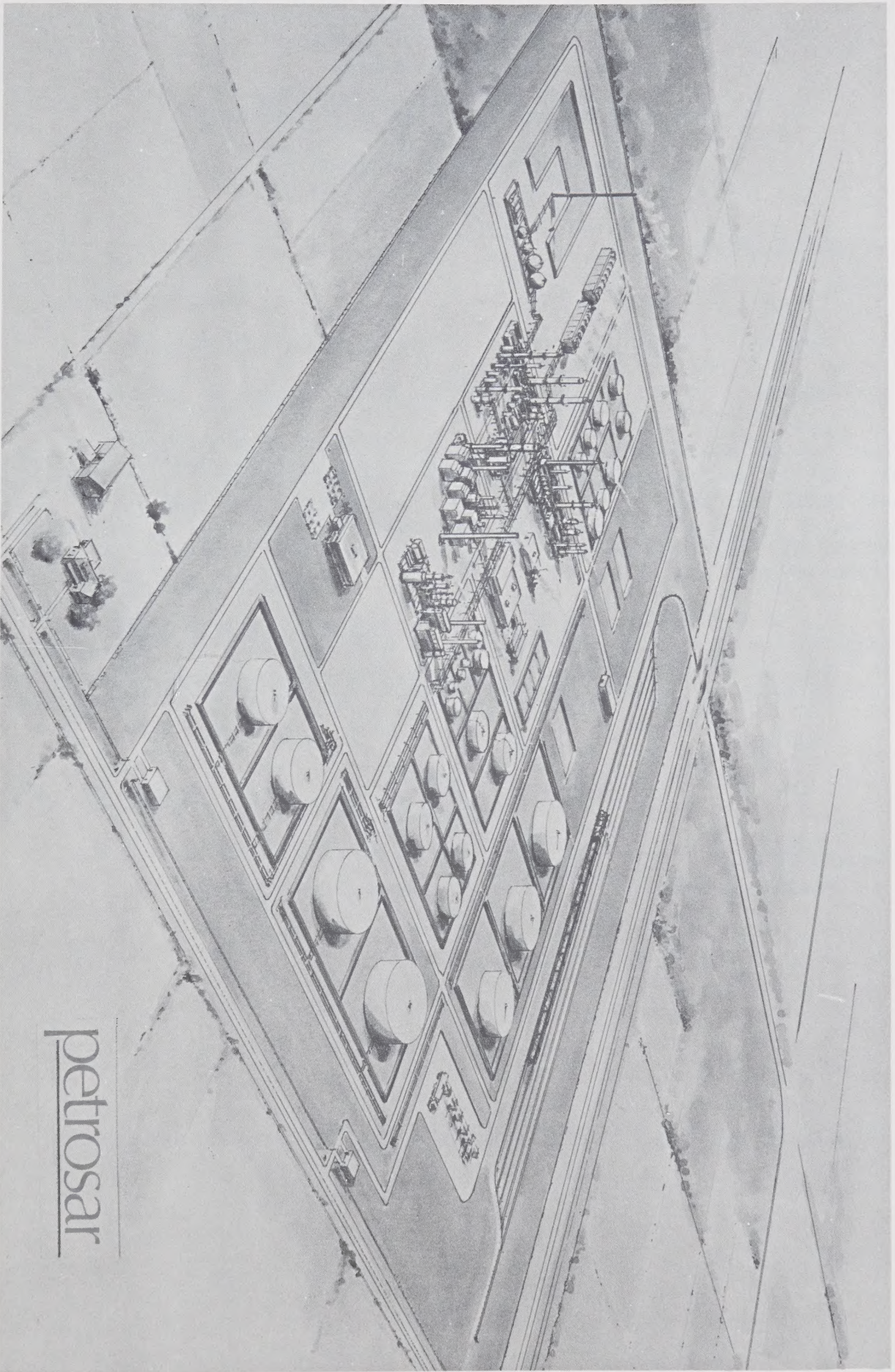
PLANT SITE

- The location is an 800 acre site in concessions 9 and 10 in Moore Township, just east of the community of Corunna and about four miles south of Sarnia. The site is adjacent to the route of the new Highway 40.

- The initial complex, including greenbelts on its perimeters, will occupy about 400 acres, with the remainder of the land reserved for subsequent expansion.

PRODUCTS

Ethylene	1 billion pounds a year.
Propylene.....	720 million pounds a year.
C ₄ Olefins.....	500 million pounds a year.
Benzene.....	50 million U.S. gallons a year.
Aromatics.....	40 million U.S. gallons a year.
Gasoline.....	8,000 barrels a day.
No. 2 Fuel Oil.....	29,200 barrels a day.
Low Sulphur Residual Oil.....	67,900 barrels a day.
Liquified Petroleum Gas.....	2,900 barrels a day.
Synthetic Natural Gas.....	28 million cubic feet a day.



petrosar

PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

Commerce Court West

P.O. Box 31, Commerce Court Postal Station

Toronto, Ontario

M5L 1B2

AUDITORS' REPORT

We have examined the balance sheet of Petrosar Limited as at December 31, 1974 and the statement of changes in financial position for the nine months then ended (see note 1 to the financial statements). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1974 and the changes in its financial position for the nine months then ended (note 1), in accordance with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Toronto, Ontario

January 23, 1975

Chartered Accountants

PETROSAR LIMITED

Statement of Changes in Financial Position

Period Ended December 31, 1974

In Thousands

Source of Funds

Proceeds of long-term debt \$ 28,082

Issue of capital stock 13,500

Payment on withdrawal
of former shareholder (Note 7) 2,000
\$ 43,582

Application of Funds

Long-term receivables 34

Property, plant and equipment 51,083

Pre-production expenses 1,076
52,193

Working Capital Deficiency at end of year \$ 8,611

The accompanying notes are an integral part of the financial statements.

PETROSAR LIMITED
(Incorporated under the laws of Ontario)
Balance Sheet
December 31, 1974
Assets

	In Thousands
Current	
Cash	\$ 13
Bank Term deposits	3,206
Accounts receivable	408
Prepaid expenses	211
Total Current Assets	<u>3,838</u>
 Long-term Receivables	 34
 Property, Plant and Equipment under construction, at cost (Note 4)	 51,083
 Pre-production expenses, at cost (Note 2)	 1,076
	 <u><u>\$ 56,031</u></u>

The accompanying notes are an integral

On behalf of the Board

I.C. Rush, Director

R.J. Richardson, Director

Liabilities and Shareholders' Equity

In Thousands

Current

Accounts payable and accrued liabilities \$ 12,363

Taxes payable 86

Total Current Liabilities 12,449

Long-term Debt (Note 5) 28,082

Total Liabilities 40,531

Shareholders' Equity

Capital stock (Note 6)

Authorized - 4,000,000 common shares
without par value

Issued - 810,000 common shares
fully paid 13,500

Contributed Surplus (Note 7) 2,000

Total Shareholders' Equity 15,500

\$ 56,031

16.66/SL

part of the financial statements

PETROSAR LIMITED

Notes to Financial Statements

Period Ended December 31, 1974

1. Incorporation

The company was incorporated on April 4, 1974, under the Business Corporations Act (Ontario) for the purpose of building and operating a world scale crude oil topping and naphtha cracking complex in the vicinity of Sarnia, Ontario. It is presently expected that the total cost of the project, including financing during construction, start-up and working capital requirements will exceed \$400 million.

2. Summary of Significant Accounting Policies

(a) Plant Under Construction

The cost of the facilities includes:

- (i) all charges from contractors for engineering, site improvement, buildings and equipment
- (ii) the costs of engineering work by the company
- (iii) commitment fees and interest charges on long-term debt, less interest earnings on short-term investments.

(b) Pre-Production Expenses

All administrative costs are being deferred as pre-production expenses. These costs, together with the costs to be incurred in starting up the facilities, will be amortized after the plant is in operation.

(c) Basis of Exchange Translation

Long-term liabilities in non-Canadian currency have been translated at the rates in effect when the liabilities were incurred.

3. Statements of Income and Retained Income

The company had no income during the period other than income from investment of temporarily surplus funds. All expenses, net of this income, have been deferred as pre-production expense or capitalized as part of the cost of property, plant and equipment.

*Each of partner co's has own funds
to consume products of this*

4. Property Plant and Equipment

It is estimated that construction of the plant will not be completed until 1977. Costs incurred to December 31, 1974 were:

	<u>In Thousands</u>
Land	\$ 3,140
Buildings	267
Machinery and Equipment	47,676
	<u>\$ 51,083</u>



5. Long-Term Debt

The company has arranged with a group of Canadian banks for a term loan of \$265 million and a demand operating loan of \$35 million. The first \$135 million of the term loan may be advanced, at the banks' option, in the equivalent amount of U.S. funds and bears interest during the five years from September 19, 1974 at 120% of the average prime rate of specified New York banks and at 122.5% thereafter until March 1, 1985. Amounts advanced in Canadian funds bear interest at .75% above the Canadian prime rate until March 1, 1985 and thereafter at rates to be agreed upon. Quarterly repayments, at a minimum of \$7.5 million, are expected to commence 12 months after completion of the facilities or June 1, 1979, whichever is the earlier.

Loans outstanding at year end were:

	<u>In Thousands</u>
(a) Repayable in U.S. funds (U.S. \$23.1 Million)	\$ 22,832
(b) Repayable in Canadian funds	5,250
	<u>\$ 28,082</u>

In the event that exchange rates prevailing at December 31, 1974 were to prevail until the loans are repaid, the amount of long-term debt would increase by approximately \$105 thousand.

The company is committed to issue and the shareholders are committed to take \$19 million of debentures with rights subordinated to rights of the banks under the bank loan agreement.

*300
19
50*

6. Capital Stock

The capital stock was issued for cash and is owned by:

Polysar Limited	60%
DuPont of Canada Limited	20%
Union Carbide Canada Limited	20%
	<u>100%</u>

The shareholders have agreed to purchase, in the ratio of their present shareholdings, a further 2,190,000 shares for \$36.5 million. The shares will be issued as required to maintain the ratio of long-term debt to shareholder equity provided for in the bank loan agreement.

While bank loans are outstanding, dividends may not be declared until specified conditions, including net working capital levels, have been met. Dividends are not expected to be declared until after 1980.

7. Contributed Surplus

Contributed surplus results from a payment made to the company in conjunction with the withdrawal of a former shareholder in the company.

8. Commitments

At December 31, 1974, the company was committed to spend approximately \$85.1 million for acquisition of capital assets.

Under long-term sales agreements the company is committed to supply a major portion of its products to its shareholders and others.

9. Supplementary Information

Interest and commitment fees on long-term debt, amounting to \$1,455,000 in 1974, have been capitalized. The aggregate direct remuneration of the senior officers of the company, as defined by the Business Corporations Act (Ontario) totalled \$81,000. No remuneration was paid to directors of the company.

- Under what conditions may banks ask for co security?
- Is Union Gas contract done?
- Is the payment from former shareholder - Koch?
- What is debt-equity ratio req'd by banks?

banks suff. substan.

banks didn't want a full mortgage.
 Guarantees there - counting on
 fin. status & value of penthouses rather than
 foreclose & take over property?

13.5
36.5
50.0

shut

2,190,000
 1,810

2.07 @ 7. oil.

28,000 MCF/day.

\$ 20 m / @ 2.00/MCF

15
 21
 450m

petrosar